

Message Text

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ORIGIN AF-06

INFO OCT-01 EUR-12 ISO-00 XMB-02 OPIC-03 EB-07 AID-05

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 INRE-00 SSO-00

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----- 021603

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FM SECSTATE WASHDC

TO AMEMBASSY KINSHASA IMMEDIATE

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

C O N F I D E N T I A L STATE 270874

E.O. 11652: GDS

TAGS: EFIN, EMIN, US, CG

SUBJECT: POSTPONEMENT OF SMTF LOAN SIGNATURE:

AMOCO REASSESS INVESTMENT

SUMMARY

1. CHASE MANHATTAN HAS ADVISED SMTF LENDERS AND SHARE-HOLDERS THAT SIGNING OF PROJECT LOAN AGREEMENTS WILL HAVE TO BE POSTPONED. DECISION IS RESULT OF RELUCTANCE OF THREE MEMBER BANKS OF CHASE SYNDICATE TO PROCEED AT THIS TIME BUT ALSO PERMITS EQUITY PARTNERS, PRINCIPALLY AMOCO, TO REASSESS PROJECT IN LIGHT OF RECENTLY CALCULATED SUBSTANTIAL COST OVERRUNS. DEVLIN IS TO INFORM MOBUTU, WITH FOLLOW-ON VISIT BY TEMPELSMAN. BELIEVE IT IS IMPORTANT THAT GOZ UNDERSTAND
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THAT DELAY IS NOT ATTRIBUTABLE TO USG, BUT THAT IT

PROVIDES ADDITIONAL POWERFUL REASON FOR EARLY GOZ AGREE-
MENT WITH IMF. END SUMMARY

2. FOLLOWING IS TEXT OF CABLE SENT BY CHASE MANHATTAN
TO SMTF LENDERS AND SHAREHOLDERS NOVEMBER 14:
QUOTE: SEVERAL MAJOR BANKS IN THE EUROCREDIT SYNDICATE
HAVE DURING THE LAST TWO DAYS INFORMED CHASE THAT THEY
ARE UNWILLING TO SIGN ON NOVEMBER 18 IN VIEW OF EXISTING
DEFAULTS IN THE OBLIGATIONS OF THE REPUBLIC OF ZAIRE.

CONSEQUENTLY, THE SIGNING CEREMONIES WHICH WERE SCHEDULED
IN LONDON ON NOVEMBER 18 AND IN ZAIRE ON NOVEMBER 20
HAVE BEEN POSTPONED. IT IS THE INTENTION OF THE
PRIVATE SHAREHOLDERS AND CHASE TO RESCHEDULE THE
SIGNING BEFORE CHRISTMAS OR, FAILING THAT, DURING THE
FIRST 10 DAYS OF JANUARY, HAVING ATTEMPTED DURING THE
INTERVENING PERIOD TO COMPLETE THE DOCUMENTATION
NECESSARY FOR DRAWDOWN. IN THE INTERIM THE PRIVATE
SHAREHOLDERS WILL BE ABLE TO ASSESS MORE FULLY THE
IMPACT OF THE RECENTLY DETERMINED PROJECTED COST
OVERRUN. WE WILL BE COMMUNICATING WITH YOU IN MORE
DETAIL DURING COMING WEEKS. UNQUOTE.

3. DECISION TO POSTPONE SIGNINGS WAS REACHED WHEN
THREE BANKS WHICH ARE APPLYING FOR OPIC INSURANCE
-- 1ST NATIONAL OF CHICAGO, CHEMICAL, AND CROCKER --
EXPRESSED UNWILLINGNESS TO PROCEED WITH SIGNINGS AS
SCHEDULED. ACCORDING TO TEMPELSMAN, THEIR ACTION
APPARENTLY CONCERTED AND OSTENSIBLY BASED UPON
1) CONCERN THAT OPIC INSURANCE WOULD BE ACTIVATED ONLY
UPON CONCLUSION OF IMF STANDBY OR OPIC JUDGEMENT THAT
STANDBY IMMINENT AND 2) UNEASINESS ABOUT RELYING UPON
CROSS-DEFAULT CLAUSE TO AVOID DISBURSEMENT UNDER LOAN
IF, ONCE ALL CONDITIONS PRECEDENT TO DISBURSEMENT ARE
MET, ZAIRIAN FINANCIAL SITUATION REMAINS SUCH THAT LOAN
APPEARS BAD RISK, WITH SECURITY AGREEMENTS STILL
UNCOMPLETED, PLANNED NOVEMBER 18 AND 20 SIGNINGS
WOULD HAVE HAD ONLY SYMBOLIC SIGNIFICANCE FOR BANKS
IN ANY CASE. WITH POSTPONEMENT, BANKS WILL NOW
MOVE AHEAD TO COMPLETE REMAINING DOCUMENTARY
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REQUIREMENTS IN HOPE THAT ONCE THIS IS DONE FINANCIAL
SITUATION WILL HAVE IMPROVED SUFFICIENTLY (PRIMARILY
AS RESULT OF SIGNATURE OF IMF STANDBY) TO PERMIT ALL
BANKS TO SIGN.

4. AS CHASE CABLE INDICATES, DELAY WILL ALSO PERMIT
EQUITY PARTNERS TO REASSESS IMPLICATIONS FOR THEM OF
NEWLY CALCULATED COST OVERRUNS OF PROJECT. FINANCING

AGREEMENTS, WHICH PLACE DOLS 427 MILLION CEILING ON PROJECT DEBT, WERE FORMULATED AT TIME WHEN TOTAL PROJECT COST ESTIMATE WAS DOLS 660 MILLION. THIS HAS NOW RISEN TO DOLS 810 MILLION. INCREASED COST REDUCES PROSPECTIVE PROFITABILITY OF PROJECT, AND SHAREHOLDERS FACE PROSPECT OF PROVIDING ENTIRE ADDITIONAL DOLS 150 MILLION AS EQUITY UNLESS CREDITORS AGREE TO AMEND

DEBT CEILING. THESE CONSIDERATIONS PLUS CONCERN ABOUT POLITICAL SITUATION IN AREA AND SOME DISSATISFACTION WITH CHARTER'S MANAGEMENT OF PROJECT HAD LED AMOCO IN PAST WEEK TO RECONSIDER WHETHER IT COULD PROCEED WITH PROJECT. COMPANY SENT OFFICIAL TO INFORM DEPARTMENT NOVEMBER 13 THAT IT WAS REASSESSING ITS POSITION AND WOULD BE DECIDING WITHIN 48 TO 72 HOURS WHETHER IT WAS PREPARED TO GO AHEAD WITH SIGNINGS AS SCHEDULED. DELAY NOW OCCASIONED BY BANKS GIVES AMOCO MORE TIME TO CONSIDER ITS POSITION.

5. DECISION TO DELAY IS TO BE COMMUNICATED TO MOBUTU BY DEVLIN. HE IS TO TELL MOBUTU WORK ON PROJECT WILL CONTINUE, EXPLAIN PROBLEM CREATED FOR BANKS BY ZAIRIAN FINANCIAL SITUATION (COMPOUNDING DIFFICULTIES CREATED BY WORLD FINANCIAL SITUATION), AND URGE PROMPT AGREEMENT TO EFFECTIVE IMF PROGRAM AS BEST WAY FOR GOZ TO SHORE UP THE PROJECT. HE IS ALSO TO BROACH PROBLEM OF COST OVERRUNS AND PERHAPS FLOAT POSSIBILITY OF APPROACHING WORLD BANK TO FINANCE SOME OF GOZ'S NOW FREE EQUITY AS MEANS OF RELIEVING BURDEN ON SHAREHOLDERS. HE IS TO PROPOSE VISIT BY TEMPELSMAN TO DISCUSS LATTER QUESTION EARLY NEXT WEEK OR AFTER
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NOVEMBER 24TH.

6. BELIEVE IT IS IMPORTANT THAT GOZ UNDERSTANDS THAT DELAY IN SIGNING IS NOT ATTRIBUTABLE TO USG. SUGGEST THEREFORE THAT, AT YOUR DISCRETION, YOU MAKE FOLLOWING POINTS TO BISENGIMANA:

A) BOTH EXIM AND OPIC WERE PREPARED TO PROCEED WITH NOVEMBER 18 AND 20 CEREMONIES AS SCHEDULED AND DEPARTMENT HAD IMPRESSED UPON BANKS AND AMOCO SYMBOLIC IMPORTANCE OF SIGNING BEFORE NOVEMBER 24 CELEBRATION.

B) NEVERTHELESS, WE UNDERSTAND PRIVATE PARTIES' CONCERNS, GIVEN BOTH COST OVERRUNS AND PRESENT ZAIRIAN

FINANCIAL SITUATION.

C) POSTPONEMENT UNDERLINES IMPORTANCE TO ZAIRE OF
PROMPT NEGOTIATION OF IMF AGREEMENT.

7. FURTHER DETAILS FOLLOW BY POUCH. KISSINGER

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